INDEX

	Page
Statement	1
Argument	5
Conclusion	11

CITATIONS

Cases:

Addyston Pipe & Steel Co. v. *United States*, 175 U.S. 211	7
Binderup v. *Pathe Exchange, Inc.*, 263 U.S. 291	8
Cutter Laboratories v. *Lyophile-Cryochem Corp.*, 179 F. 2d 80	9–10
Eastern States Retail Lumber Dealers' Ass'n v. *United States*, 234 U.S. 600	8
Timken Roller Bearing Co. v. *United States*, 341 U.S. 593	6
Transparent-Wrap Machine Corp. v. *Stokes & Smith Co.*, 329 U.S. 637	9
United States v. *American Tobacco Co.*, 221 U.S. 106	6
United States v. *Borden Co.*, 347 U.S. 514	10
United States v. *General Dyestuff Corporation*, 57 F. Supp. 642	7
United States v. *Griffith*, 334 U.S. 100	7
United States v. *Hartford-Empire Co.*, 46 F. Supp. 541, affirmed 323 U.S. 386	7
United States v. *National Lead Co.*, 63 F. Supp. 513, affirmed, 332 U.S. 319	7, 8

Statute:

Sherman Act, Sec. 1, 26 Stat. 209, 15 U.S.C. 1	1

In the Supreme Court of the United States

OCTOBER TERM, 1955

No. 558

THE MAC INVESTMENT COMPANY, APPELLANT

v.

UNITED STATES OF AMERICA

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF MICHIGAN

MOTION TO AFFIRM

Pursuant to Rule 16, Paragraph 1(c), of the Revised Rules of this Court, appellee United States of America moves that the judgment of the District Court be affirmed.

STATEMENT

This is a direct appeal from the final judgment entered by the District Court on August 15, 1955, which adjudged that the appellant and others had combined and conspired to restrain interstate commerce in the manufacture of machine tools, in violation of Section 1 of the Sherman Act, 15 U.S.C. 1.

The complaint, charging such violation, was filed in June 1951. After a trial which ran from February 16, 1954, to March 4, 1954, the District Court on June 20, 1955, filed its opinion in the form of findings of fact and conclusions of law. The facts found by the District Court, as supplemented by certain facts set forth in the Jurisdictional Statement, can be briefly summarized.

Prior to 1931, Charles B. DeVlieg, one of the defendants in the case, had developed three major inventions of general application in the manufacture of machine tools, known as a backlash eliminator, an automatic positioning device, and an automatic transmission mechanism. In that year, DeVlieg granted an exclusive license under two of the inventions (the backlash eliminator and the automatic power transmission mechanism) to defendant The Lucas Machine Tool Company ("Lucas"), appellant's predecessor, for use in the manufacture of horizontal boring, drilling and milling machines. In 1932, he granted an exclusive license under all three inventions and improvements thereon to defendant The Carlton Machine Tool Company ("Carlton") for use in the manufacture of drilling machines. That same year he granted an exclusive license under all three inventions and improvements thereon to defendant The Lodge & Shipley Machine Tool Company ("Lodge & Shipley") for use in the manufacture of lathes. He also that same year granted a non-exclusive license under all three inventions and improvements thereon to defendant Brown & Sharpe Man-

ufacturing Company ("Brown & Sharpe") to be incorporated in "machine tools of their [Brown & Sharpe's] own manufacture." (J. S.[1] 23-24.)

In 1933, the licensees, who had an interest in the DeVlieg inventions then being processed through the Patent Office, became concerned over DeVlieg's financial outlook. Two of the licensees, Carlton and Lodge & Shipley, agreed to make a cash payment to DeVlieg in lieu of royalty payments under their licenses, and agreed with him and the two other licensees to organize Associated Patents, Incorporated ("API"), to which DeVlieg was to assign all his rights in his three inventions. The four licensees and DeVlieg each received and thereafter owned 20% of API's capital Stock. (J.S. 6, 21, 24.)

In August 1933, a meeting was held in Cincinnati, Ohio, to discuss the terms and conditions under which the new company would administer the inventions. Understandings reached at the meeting were reduced to a formal agreement dated August 3, 1933, referred to hereinafter as the "API agreement" (J.S. 24-25). The principal provisions of this agreement were (J.S. 25-26):

> (a) The agreement applied to the three original DeVlieg inventions and all improvements thereon developed by the members, and was to continue as long as there were outstanding any unexpired patents on these inventions or improvements thereon.

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[1] Appellant's Jurisdictional Statement, including its Appendix, will be referred to as "J.S."

(b) The API members were obligated to disclose promptly to API all such improvements developed by them or their employees and to assign such improvements to API.

(c) The "Declaration of Uses" provision of the agreement specified the particular fields within which the involved patents and improvements thereon were to be exclusively licensed to the respective companies. Each field of use consisted of several types of machine tools and, with one exception, these fields of use were mutually exclusive and non-competitive.

(d) Each API member was entitled to receive an exclusive license, within the field defined in its Declaration of Use, on any improvement assigned to API.

(e) API was to have the exclusive right to grant licenses and sub-licenses on the assigned patents and improvements thereon, but no license was to be granted within any member's exclusive field of use without the prior consent of such member.

(f) The scope of the Declaration of Use assigned to each party could be extended only by API, but it could not grant any extension which would conflict with the Declaration of Use of any other party except with the consent of that party.

The purposes of API were to suppress competition between the parties by confining their use

of the API inventions to non-competitive fields of activity, and to restrict the competition of outside parties by denying them access to the assigned patents and improvements thereon subsequently developed by API members (J.S. 29).

The court found that, concurrent with the execution of the API agreement, the members arrived at a general unwritten agreement not to compete in the manufacture of machine tools irrespective of whether or not API's patents were utilized (J.S. 30). It also found that, to implement the general agreement not to compete, a number of subsidiary agreements were made from time to time when a new machine designed by one party threatened to conflict or compete with a machine being manufactured by another party under patents not covered by the API agreement (*ibid.*). These subsidiary agreements are described in detail in the court's findings (J.S. 30-32).

ARGUMENT

Appellant's contention (J.S. 9-10) that the API agreement is a mere restatement of patent rights created by the outstanding individual licenses previously granted by DeVlieg ignores certain basic facts. The API agreement embraced not only the inventions covered by the individual licenses, but improvements thereon later developed by any of the parties. It took from each of the parties any independent right to license his own inventions, and placed this power in the hands of API under a restriction barring grant of a license for a field

of use reserved to any other party without that party's consent. The term of the agreement also exceeded that of the individual licenses since it was to continue, not merely for the life of patents on DeVlieg's three original inventions, but for the life of any subsequent improvement thereon. The agreement thus created substantial new rights and obligations, and united the parties in a scheme to restrict both competition among themselves and competition of others.

The API agreement provided that all inventions which the parties subsequently developed which related to the API patents should be pooled and that the rights thereby pooled might be utilized by each party only in the particular field of manufacture allotted to him, such field being non-competitive with the fields allotted to the other parties. The parties thus agreed that, as far as API patents and all inventions constituting improvements thereon were concerned, each party would stay within his allotted field of manufacture. This, therefore, was an agreement not to compete, achieved through a division of exclusive fields of manufacture. Agreements of this kind, whether achieved by allocating exclusive territorial markets or exclusive fields of manufacture, and whether implemented by rights claimed under patents or not, have uniformly been held to violate the Sherman Act. *Timken Roller Bearing Co.* v. *United States,* 341 U.S. 593, 596-599; *United States* v. *American Tobacco Co.,* 221 U.S. 106, 182; *Addyston Pipe & Steel Co.* v. *United States,* 175 U.S.

211, 241; *United States* v. *National Lead Co.*, 63 F. Supp. 513 (S.D.N.Y.), affirmed, 332 U.S. 319; *United States* v. *Hartford-Empire Co.*, 46 F. Supp. 541 (N.D. Ohio), affirmed, 323 U.S. 386.

It is immaterial that the parties to the API agreement were not in actual competition with each other at the time the agreement was signed. The antitrust laws are as much violated by the prevention of competition as by its destruction. *United States v. Griffith*, 334 U.S. 100, 107. In *United States* v. *General Dyestuff Corporation, et al.*, 57 F. Supp. 642, 648 (S.D.N.Y.), the court aptly said: "Neither the letter of the law nor its purpose 'distinguishes between strangling a commerce which has been born and preventing the birth of a commerce which does not exist.' "

While the parties to the API agreement manufactured different types of machines, it does not follow that they were not potential competitors. They were engaged in closely related and, to some extent, overlapping fields of manufacture. The facts show that expansion of one member's field of activity into that of another was neither impractical nor improbable. At various times after the making of the API agreement certain defendants contemplated, or actually began, construction of machines which would compete with those being manufactured by other parties to the agreement (J.S. 30-32). DeVlieg's expansion into the horizontal boring field in 1941, foreign to him before that date, is a prime example of this (J. S. 32). Likewise, the basis of the civil action brought in

1947 by Lucas and API against DeVlieg is that a machine manufactured by DeVlieg infringed patents owned by Lucas and threatened to compete with a machine which Lucas was entitled to manufacture exclusively under the API agreement (J.S. 7-8).

The API agreement was designed to prevent not only competition among the parties thereto, but also competition of outsiders. It provided that no license should be granted within the exclusive fields of use reserved to the various members without the prior consent of the member within whose field the prospective license was to be granted (*supra*, p. 4). Agreement upon this veto provision constituted concerted action not to deal with a competitor of any member of the combining group, since, in the absence of this provision, each member would have been free to license his improvement inventions to competitors of other members. Concerted refusal to deal, with the effect and purpose of preventing competition, has long been recognized as violative of the Sherman Act. *Binderup* v. *Pathe Exchange, Inc.*, 263 U.S. 291; *Eastern States Retail Lumber Dealers' Ass'n* v. *United States*, 234 U.S. 600. This principle applies where members of a patent pool agree to restrict the licensing of outsiders. In *United States* v. *National Lead Co.*, 63 F. Supp. 513, 524, *supra*, the court said that where there is a refusal to license which is the product of agreement or conspiracy on the part of owners of competing patents, "the law is offended to the same extent as the law is violated when several combine

and agree not to do business with a particular customer or class of customers."

Appellant contends (J.S. 9) that the decision in the present case is "apparently in conflict" with the decision of this Court in *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, 329 U.S. 637. We submit that there clearly is no element of conflict. The *Transparent-Wrap* case involved the validity of a license agreement between a single licensor and a single licensee, which obligated the licensee to assign improvement patents to the licensor. The instant case, on the other hand, involves the validity of agreement among patentees to restrict or eliminate competition. The five parties to the API agreement operated for a period of some 20 years under an agreement providing that future improvement patents or inventions developed by any of them might be used only on the basis of a division of manufacturing fields, and providing, as to such patents or inventions, that each party might veto use thereof by its competitors.

Nor is there, as appellant has suggested (J.S. 9, 11-12), real or apparent conflict between the decision below and that in *Cutter Laboratories* v. *Lyophile-Cryochem Corp.*, 179 F. 2d 80 (C.A. 9). In *Cutter Laboratories* the F. J. Stokes Machine Co., a manufacturer of freeze-drying apparatus, and Sharp & Dohme, a manufacturer of freeze-dried drugs and medical products, formed a corporation to which they assigned their patents in the freeze-dried drugs field and agreed to assign to it their future patents in this field. The new company then

granted Stokes a license to make and sell patented machinery and granted Sharp & Dohme a license to make and sell patented medical products. The court found that there was "no evidence of restrictive practices" on the part of the patent holding company in the granting of licenses and that "[a]ny would-be licensee appears to have been able to procure just the licenses he wished." 179 F. 2d 92. The court also concluded that the arrangement did not restrict potential competition between Stokes and Sharp & Dohme. It said that Stokes could not exploit patents on medical products "without going outside its normal field, which is machinery," and that Sharp & Dohme "is in no position to exploit directly the improvements in machinery which it discovers in the course of its research." *Id.*, 93.

Appellant finally contends that, in view of the Michigan "Dead Man" statute, the District Court erred in admitting testimony of a Government witness as to his conversations with officers of defendant companies who had died prior to the trial. In *United States* v. *Borden Co.*, 347 U.S. 514, 516, where the Government's appeal challenged the decision below on the basis of like alleged error, this Court held that the decision below would have been the same had the challenged ruling been otherwise and that the alleged error therefore did not constitute ground for reversal. This is the situation in the instant case, on appellant's own showing. The alleged error relates only to an unwritten agreement among defendants set forth in finding

24 (J.S. 16, 30). Appellant states that findings 18-23 (J.S. 25-30) "deal with the heart of the case," that "the case does not turn on" the testimony admitted in alleged contravention of the state "Dead Man" statute, and that "all" of the District Court's findings "are closely allied to and intertwined with its conclusion that the API agreement was invalid" (J.S. 15-16).

CONCLUSION

For the foregoing reasons, we submit that the appeal presents no substantial question, that the decision below is clearly correct, and that the questions involved do not call for further review by this Court. It is therefore respectfully submitted that the judgment of the District Court should be affirmed.

Respectfully submitted,

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